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UNCLAS SECTION 01 OF 02 MAPUTO 001213

SIPDIS

STATE FOR AF/S, AF/EPS

E.O. 12958: N/A

TAGS: [ETRD](#) [PHUM](#) [PREL](#) [MZ](#) [AGOA](#)

SUBJECT: MOZAMBIQUE REMAINS ELIGIBLE FOR AGOA BENEFITS

REF: A. STATE 168472

[1](#)B. MAPUTO 269

[1](#)C. 03 MAPUTO 1452

#### Summary

[1](#)1. Mozambique meets the requirements for benefits under the African Growth and Opportunity Act (AGOA). The Government of the Republic of Mozambique (GRM) continues to make progress in establishing a market-based economy, eliminating barriers to US trade and investment, reducing poverty, promoting democratic consolidation, and protecting workers' rights. This positive trend should continue, especially as Mozambique begins to benefit economically from higher levels of international trade and investment. End Summary.

#### Market-Based Economy

[1](#)2. Mozambique continues to be one of the most dynamic and fastest-growing economies in sub-Saharan Africa, albeit from a very low base. GDP growth was 7 percent in 2003 and is expected to continue between 7-10 percent over the next several years. The GRM has been encouraging foreign direct investment (FDI). During 2003, the GRM's Investment Promotion Center, CPI, approved 101 projects involving foreign investment, valued at approximately \$112 million. Several new, large projects which are not included in the 2003 figures are expected to begin in 2005/2006. Mozambique has privatized over 1200 small companies and 37 large enterprises since the privatization program began 10 years ago. Foreign investors have participated in Mozambique's privatization program without impediment.

[1](#)3. Only 11 large state-owned or operated companies remain, including the national airline, telephone, electricity, insurance, oil and gas exploration, port and rail, airports, water supply, and fuel distribution companies. Concession agreements have been signed with private investors for various aspects of the management and rehabilitation of the ports of Beira, Maputo and Quelimane. In August, negotiations were finalized on the Nacala Corridor Development Project for the rehabilitation and modernization of the railroad and port system on a key transport route between Malawi, Zambia and Mozambique. The project includes substantial US investment and is expected to include financing from the Overseas Private Investment Corporation (OPIC). Mozambique opened its cellular telephone industry to competition in late 2003 with the granting of a licensing agreement to Vodacom. In 2004, Mozambique retained its international credit rating of B/B by Fitch Ratings, reflecting Mozambique's positive track record on economic reforms, political stability, strong economic growth, openness to FDI, and expanding exports.

#### Elimination of Barriers to US Trade/Investment

[1](#)4. Although quite small, US-Mozambican trade is expanding, with the vast majority of Mozambique's exports to the US entering under either AGOA or GSP. South Africa and Portugal are the leading foreign investors. Only 6 of the largest 100 companies in Mozambique are US-owned or related to the U.S.: Coca-Cola, Mobil, Seaboard, Avis, Colgate-Palmolive and KPMG. Mozambique remains cooperative on intellectual property rights protection. Mozambique does not generally employ non-tariff barriers to trade and is an active member in SADC, as well as the British Commonwealth.

#### Poverty Reduction

[1](#)5. Illiteracy and infant mortality rates in Mozambique are among the highest in Africa. Life expectancy is 46 years and, as a result of AIDS, is expected to decline into the 30s by 2010. The country also lacks infrastructure, power, and clean water for most of its citizens. The Government has placed its Plan for the Reduction of Absolute Poverty (PARPA) at the head of its policy agenda. PARPA emphasizes six areas as key reducers of absolute poverty: education; health; basic infrastructure; agriculture and rural development; good governance; and macroeconomic and financial management. A recent household survey indicates that the incidence of extreme poverty has declined from 70 percent to 55 percent over the past 5 years. The donor community funds approximately 60 percent of the national budget, though the HIPC and Enhanced HIPC (Heavily Indebted Poor Countries) debt relief programs have permitted increased budgetary support to

alleviate poverty.

#### Democratic Consolidation/Rule of Law/Corruption

16. Mozambique has made significant progress in the consolidation of democracy since the signing of the 1992 Rome Peace Accord that ended sixteen years of civil war. On December 1 and 2, Mozambique will hold its third multi-party presidential elections since independence in 1975. The current constitutionally-elected president, Joaquim Chissano, will step down after having served since 1986, winning elections in 1994 and 1999. Chissano and the leadership of FRELIMO dominate policy-making and implementation. On November 19, 2003, Mozambique held municipal elections which were considered generally free and fair. However, many institutions, such as the judiciary and the police, remain weak. Corruption remains a problem in both the public and private sectors. In recognition of this, the GRM's Attorney General established an Anti-Corruption Unit, which has received funding from USAID and the Department. In addition, the National Assembly passed a new Anti-Corruption Law in 2004, which aims to curb corruption in government offices, the police force, hospitals and the schools. The Department has also funded Mozambique's Police Sciences Academy in an effort to improve the performance and professionalism of the police force.

#### Workers Rights

17. The Constitution provides that all workers are free to join or refrain from joining a trade union, and workers enjoy these rights in practice. Labor unions, created during the socialist years, remain weak and lack resources. Total membership among Mozambique's thirteen unions is less than 200,000, concentrated in Maputo and a few other urban areas, and much of the labor force is engaged in small-scale agriculture. Mozambique's labor law, currently under revision, is generally considered pro-worker. Labor unions are exerting significant pressure on the government to keep many of the law's provisions. In 2004, the GRM increased the country's statutory minimum wage by slightly more than the 2003 inflation rate of 13 percent.

#### Recommendation

18. Post once again (ref C) believes strongly that the progress made by Mozambique in its economic and political policies further solidifies its qualification for AGOA benefits. Embassy Maputo is confident that this positive trend will continue, especially as Mozambique begins to benefit economically from higher levels of international trade and investment.

LA LIME